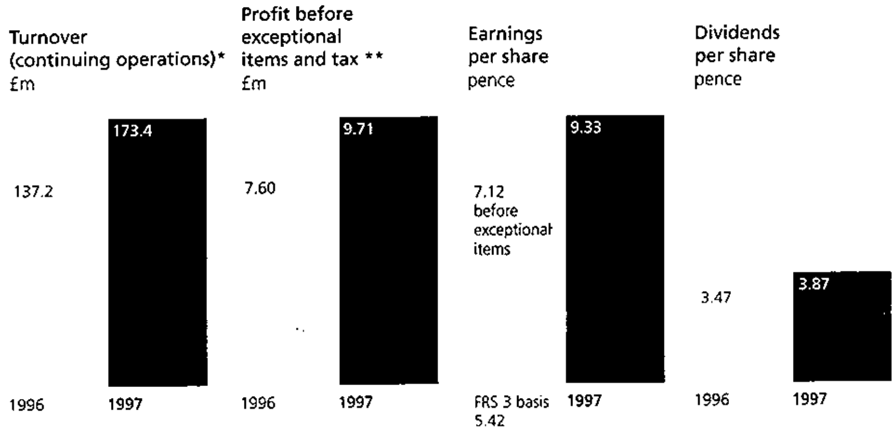
NESTOR HEALTH CARE GROUP PLC

1992981

Financial Highlights

	1997 £m	1996 £m
Turnover - continuing operations*	**173.4**	137.2
Profit before exceptional items and tax **	**9.71**	7.60
Earnings per share - FRS 3 basis	**9.33p**	(5.42p)
- before exceptional items	**9.33p**	7.12p
Dividends per share	**3.87p**	3.47p



* including share of associate

** after interest

1996

As a consequence of the restructuring of the Group and our strategic focus on healthcare, the Company name was changed, on 13th June 1997, to Nestor Healthcare Group plc.

THE COLONNADES
BEACONSFIELD CLOSE
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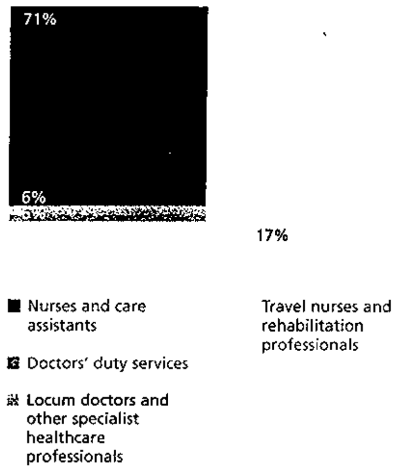
Nestor Healthcare Group plc

The Group at a Glance

UK Healthcare
Proportion of Group turnover: 83%

USA Healthcare
Proportion of Group turnover: 17%



UK Healthcare

BNA

BNA is the largest provider of temporary nurses and carers in the United Kingdom through its national network of 144 branches. BNA currently has 78,000 nurses and other carers on its register who are available to help people in their own homes and to work in hospitals, nursing homes and industry.

Grosvenor

Grosvenor is a nursing agency based in London and specialising in mental healthcare.

Medic International

Medic International provides locum doctors, physiotherapists, occupational therapists and other specialist healthcare professionals, mainly to hospitals.

Worldwide Healthcare Exchange

Worldwide Healthcare Exchange places nurses, doctors and other healthcare professionals from around the world into the UK and other English-speaking countries.

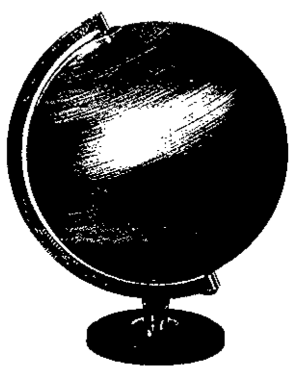
Nestor Medical Duty Services

Nestor Medical Duty Services' main activity is to visit patients at home for client GPs after normal surgery hours. Operating in North West England and the West Midlands, it also manages Primary Care Centres for patients to visit in the evenings and at weekends and offers advice services over the telephone.

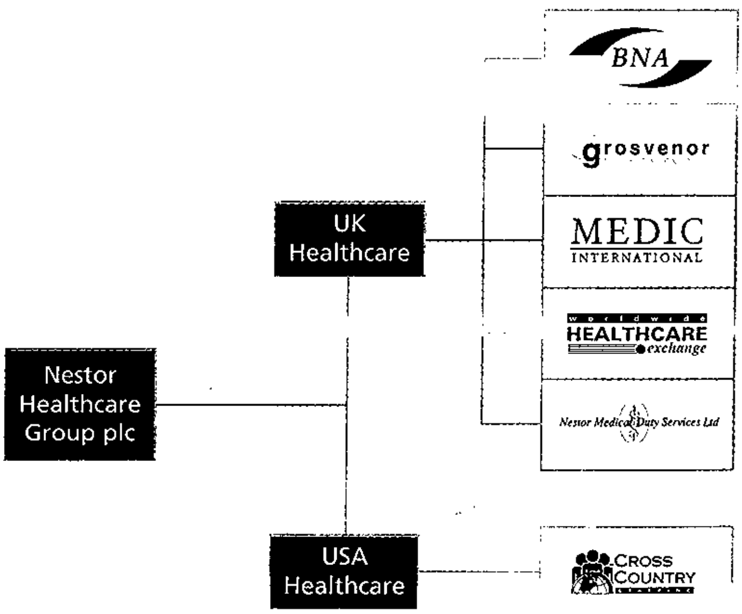
USA Healthcare

Cross Country Staffing

The Group has a 34% interest in Cross Country Staffing, the largest provider of travel nurses and rehabilitation professionals to healthcare facilities in the USA.



Over 1,000 nurses and doctors brought to the UK
Working in 12 countries around the globe to attract nurses, therapists, physiotherapists and doctors to the UK, Worldwide Healthcare Exchange is one of the world's largest importers of healthcare professionals.



Over 4,000 specialist nurses in London
Over 4,000 specialist nurses work regularly through Grosvenor's five branches in the London area.

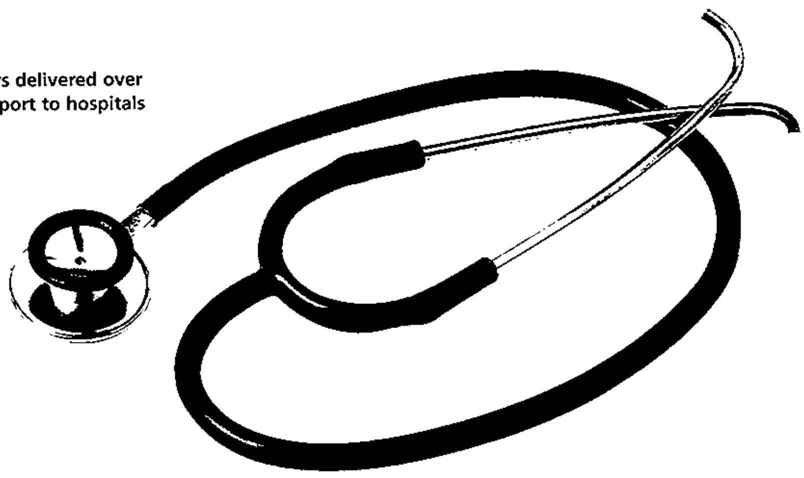
BNA branches

- Medic International branches
- NMDS medical duty centres
- Grosvenor branches

13 million hours of care
BNA members delivered over 13 million hours of care to hospitals, nursing homes, industry and local communities.

2,200 GPs
More than 2,200 GPs relied upon NMDS to support their patients outside normal surgery hours.

10,000 locum doctors
Medic International doctors delivered over half a million hours of support to hospitals throughout the UK.



Chairman's Statement

I am delighted with our results which reflect our strategy of concentrating on the provision of healthcare personnel and services in the UK and strong performance in the USA following the merger.

Introduction

I am very pleased to report that 1997 was another year of excellent results showing record pre-tax profit and turnover. These results reflect our strategy of concentrating on the provision of healthcare personnel and services in the UK and strong performance in the USA following the merger with Cross Country Staffing.

Summary of results

Pre-tax profit before exceptional items increased by 28% to £9.71 million (1996: £7.60 million).

Turnover from continuing operations, including our share of the USA associate, grew by 26% to £173.4 million (1996: £137.2 million).

Operating profit from continuing operations, including our share of profit of the USA associate, increased by 28% to £9.21 million (1996: £7.21 million).

Earnings per share were up 31% to 9.33 pence.

Dividends

Your Board recommends a 12% increase in the final dividend to 2.47 pence per share to be paid on 29th May 1998 to shareholders registered at the close of business on 3rd April 1998, making a total dividend for 1997 of 3.87 pence per share. This represents an increase of 11.5% on 1996 for the full year.

Review of 1997

UK Healthcare

Our UK Healthcare businesses produced excellent growth with an increase in turnover of 27% and a rise in operating profit of 16% to £8.59 million (1996: £7.38 million).

These results demonstrate our success in this major market-place.

BNA again had a most encouraging year, with turnover increasing by 23% to £122.6 million and net margins up on last year. Significant contract gains have been made with NHS Trusts and Local Authorities and contracts now represent approximately 30% of BNA's total turnover. The supply of nurses to nursing and residential homes increased substantially and our homecare business provided good revenue increases.

Medic International, which has broadened the range of Nestor healthcare personnel supplied to the NHS, achieved a turnover of £10.2 million in 1997 and produced a good contribution to Group profit, albeit at lower margins than those achieved in BNA.

Worldwide Healthcare Exchange places nurses, doctors and other healthcare personnel from around the world into the UK and other English-speaking countries. Also on the supply side, BNA recruited 24,000 nursing staff during 1997.

Grosvenor Nursing Agency, with five branches and specialising in mental healthcare, was purchased in November 1997 for £2.5 million and has made an excellent start with the supply of personnel and services to our major London clients.

NMDS, our doctors' out-of-hours service, achieved a turnover of £9.9 million. It responded to the increased competition from the Government-funded GP Co-operatives by the continuing development of new services, most notably triage and advice call services and the management of twenty primary care centres. The effect of this was an increase in the level of calls but margins and profits were reduced. All the indications are that the margin position has now stabilised.

USA Healthcare

The benefits of the merger of MRA and Cross Country Staffing in July 1996 are evident from the 1997 results. Our share of profits of the merged business was £2.48 million ($4.06 million) compared with last year's USA Healthcare profit contribution (including the pre-merger profit of MRA) of £1.42 million ($2.23 million), an increase of 75%. Cross Country also produced a very good operating cash flow which was retained in the USA to reduce its borrowings.

The market for travel nurses in the USA continues to be buoyant and Cross Country Staffing, as the market leader, is ideally placed to benefit from this favourable outlook.

Financial position

The financial position of the Group remains strong with shareholders' funds at the year end £9.14 million (1996: £6.90 million).

Closing borrowings were £4.00 million (1996: £0.60 million net cash). The level of borrowings reflects the £2.5 million consideration for the acquisition of Grosvenor Nursing Agency, a higher level of working capital required by our UK Healthcare operations and capital expenditure on systems developed for BNA.

Staff

Our staff have achieved dynamic growth in a challenging environment. On behalf of the Board, I would like to thank them all for their commitment and hard work during the year.

Board and management changes

As announced at the AGM, Robert Nicholls CBE was appointed a non-executive director with effect from 1st September 1997.

With effect from 1st January 1998 Justin Jewitt became Chief Executive. He was previously Managing Director, UK Healthcare. David Lyon, who was previously Group Financial Controller, joined the Board as Director responsible for Finance and Corporate Planning.

Clive Chapman, Managing Director, Finance and Corporate Planning and John Cockburn, Managing Director of NMDS, stepped down from the Board in December 1997. They left the Group in a strong position and the Board thanks them warmly for their valuable contributions over the years.

Mike Horgan, who was previously BNA's Operations Director, became Managing Director of BNA in November 1997. Marilyn Stokes has been appointed Managing Director, NMDS, Colleen Quirke, Managing Director, Medic International and Sue Gray, Managing Director, Grosvenor Nursing Agency. All these senior managers have many years' experience within the Group.

Outlook

In the UK, BNA's strong trading performance in December has continued through January, February and March.

In February 1998 Nestor Healthcare Group plc was awarded a contract to supply medical screening services, as sub-contractor to Sema Group for the DSS's Benefits Agency Medical Services. This is a very significant development which involves the provision of approximately 600,000 screenings per annum and so expanding our activities into a new sector. This, together with the two major contracts awarded to BNA already announced in 1998, underpin our performance for 1999 and beyond.

In the USA we expect to benefit from continued favourable market conditions in the travel nurse business.

Overall, prospects for the Group are very encouraging.

David Heywood
Chairman
23rd March 1998

Centre: David Heywood
Left: Justin Jewitt
Right: David Lyon

Operating Review

UK Healthcare continued to grow strongly in 1997 with a 27% increase in turnover and a 16% increase in operating profits. Our keynotes for 1997 have been organic growth with further geographical extensions and at the year end the strategic acquisition of Grosvenor Nursing Agency.

UK Healthcare

BNA

In 1997, BNA has increased the number of branches from 133 to 144, improving its lead as the largest nursing and care agency in the country. It achieved turnover of £122.6 million, up 23%. BNA remains the only truly nation-wide UK agency capable of supplying in England, Scotland, Wales and Northern Ireland. There are now 78,000 nurses and carers on BNA's register, 24,000 were recruited in 1997 and over 30,000 gained assignments through BNA during that year delivering over thirteen million hours of care.

NHS Hospitals and Contracts

In 1997, NHS business represented 45% of BNA's turnover (1996: 42%).

The increase in the number of branches arose from organic growth including contract gains with the NHS. By September 1997, BNA had reported contract gains amounting to £18 million turnover on an annual basis. This compares to £8 million in the whole of 1996. Contracts were won in every sector of care, including servicing the needs of major teaching hospitals, small community trusts and social services.

BNA contracted business now accounts for approximately 30% of its total activities, ranging in duration from one to three years. This represents a key change from the early 1990s when BNA's contracts represented only 2% of activity.

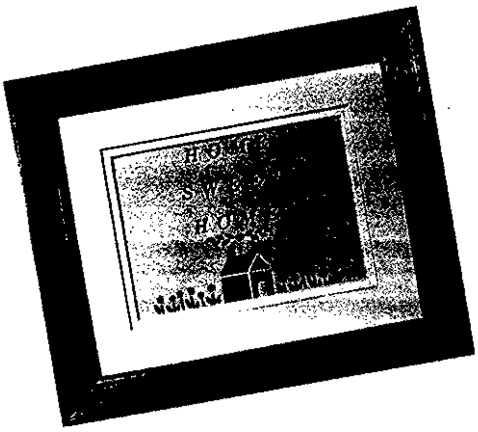
Residential and Nursing Homes

In 1997, the demand for temporary staffing significantly increased in the residential and nursing home market. This reflects the need to match fluctuation in occupancy levels with flexible staffing rotas. This market sector still consists of a large number of very small operations. During 1997 this sector represented 20% of BNA's total turnover (1996:15%).

Homecare

The homecare market, funded by Local Authorities and by individuals, has considerable growth potential. Local Authorities have been slow to contract out their in-house services, but our branch network is well placed to work with Local Authorities to provide this type of care. During 1997 our revenues from homecare increased by 4% and this sector represents 25% of BNA's business (1996: 30%).

During the year, several organisations have looked to BNA to create national programmes either for testing or for immediate delivery of the service. For example, BNA has become the national provider to Norwich Union for its new long term healthcare insurance policy. It is also serving PPP, BUPA and other organisations as the national provider of homecare for their respective policy holders. BNA joined Boots the Chemist in 1997 in a pilot test for Boots/BNA Homecare Service.



130 Social Services Departments supported
BNA care workers delivered support and care to people in their own homes on behalf of their local Social Services Departments throughout the UK.

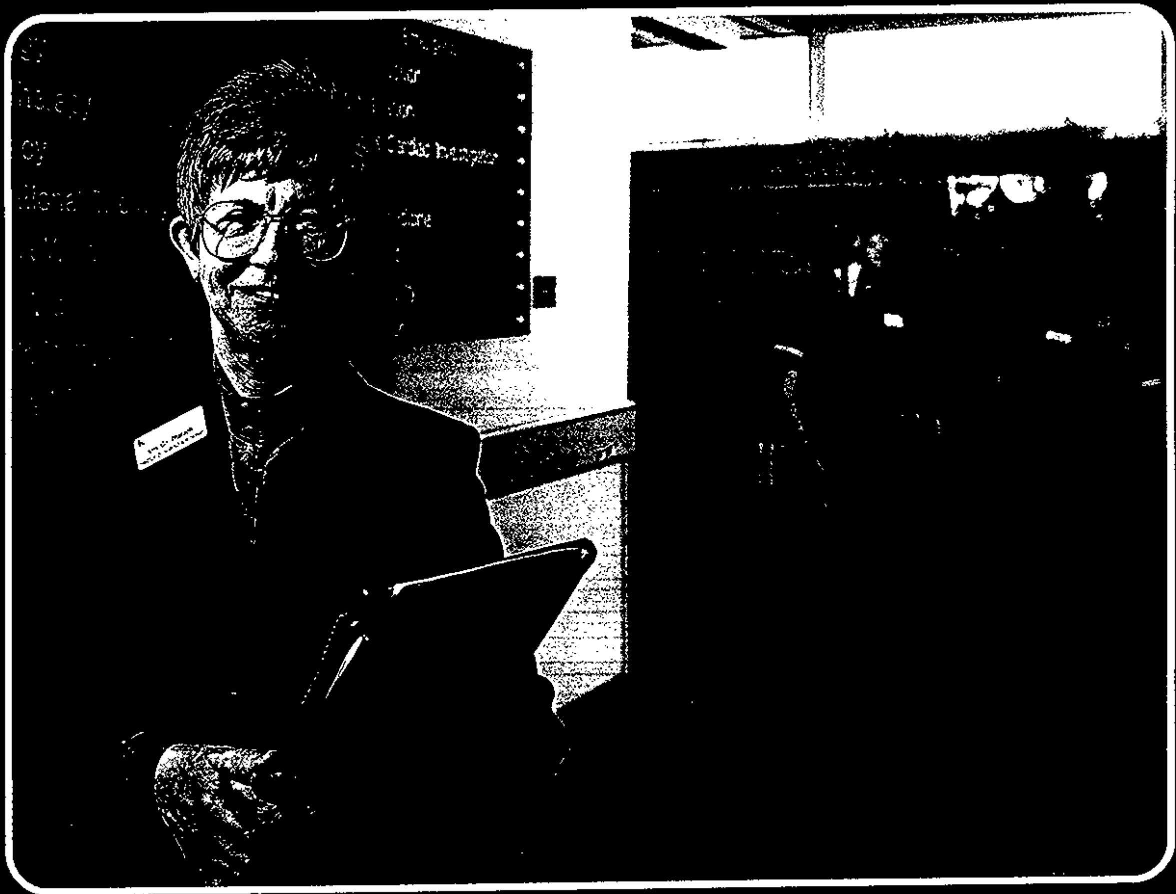
"I really wanted to get a number of patients back into the comfort of their own homes with the appropriate level of care and support. BNA was able to provide the immediate support these patients needed until other support organisations were able to take over."

Lisa Stewart, Early Supported Discharge Scheme Coordinator, Royal Infirmary of Edinburgh

BNA is the largest provider of nurses and carers in the UK. It co-ordinates some 78,000 registered members who are available to work in hospitals, people's own homes, nursing homes and industry.

To patients who have been discharged from hospital, BNA offers a round-the-clock service, providing the support these patients need to get back in their own homes where they often recover more quickly.

This emergency response service also helps hospitals to free up beds more quickly. Some patients may simply need help intermittently throughout the day, such as help with washing and dressing, while others may require 24-hour care. BNA has the flexibility to provide appropriate healthcare professionals to people in their own homes.



"Our hospital was facing an acute shortage of nurses and other healthcare professionals - we needed someone who could help us fill the gaps. Worldwide Healthcare Exchange was able to provide the help we needed. Its partners in South Africa were able to line up a number of suitable candidates for me to interview. When I had made my selection, they managed the whole immigration and induction process for us."

Georgina Pharaoh, Director of Nursing, Kettering General Hospital NHS Trust

Worldwide Healthcare Exchange (WHE) is the largest organisation for mobilising healthcare professionals internationally.

Changing demographic patterns mean that there are fewer healthcare professionals to look after a UK population increasingly in need of care. WHE arranges for healthcare professionals, including nurses, doctors, and physiotherapists, from all over the world to work in the UK and other English-speaking countries.

Kettering NHS Trust was looking for a large number of qualified nurses. Traditional recruitment methods in the UK had not been successful, so the Trust looked to Worldwide Healthcare Exchange (WHE) for an international solution.

Our overseas partners compiled a short-list of suitable candidates who met their requirements. They then helped these new recruits to arrange visas, work permits and open bank accounts in the UK to assist them through the immigration process.

Other Services

Turnover grew in our Legal Assessment and Screening Services businesses, leading to improvements in profitability.

Supply of Nurses and Carers

While demand remains very high, there is a significant shortage of nurses and carers in the UK.

The development of Worldwide Healthcare Exchange is one way in which BNA is alleviating this shortage. This division is now the largest single provider of overseas English-speaking healthcare professionals in the UK, with over 5,000 nurses, doctors and physiotherapists and other allied professionals on its books. During 1997, it was responsible for bringing into the UK over 1,000 healthcare professionals. We seek to place professionals back in jobs when they return to their country of origin following completion of their time in the UK.

The other way in which BNA is alleviating the shortage of supply is in the area of retraining. Not only has it developed a distance learning Return to Nursing initiative, it has also developed extensive in-house training courses for care assistants.

Systems

During 1997, a new computer system was developed and tested in-house. This system will meet all BNA's reporting needs within its business, including detailed invoicing and management information required by our clients and members.

Medic International

Medic International achieved a turnover in 1997 of £10.2 million and delivered almost 500,000 hours, principally to the NHS. It saw organic growth in providing doctors, occupational therapists and physiotherapists. It won two significant doctor bank management contracts during 1997, St Mary's NHS Trust and the Whittington Hospital, London. Medic is now one of the top three providers to the NHS Trusts covered by the National Supplies contract.

During the year, a number of structural changes took place as Medic International became more integrated in the Group. Its nursing division was transferred to BNA and its central administration function moved to Hatfield. It has proved to be a successful strategic acquisition and has justified the investment cost, but profit margins have been under pressure in 1997.

24,000 new recruits
The number of qualified nurses and care professionals recruited to BNA during 1997 was twice the total of new recruits to the British Army.

Nestor Medical Duty Services
Our doctors' out-of-hours services division saw significant change in 1997. Turnover was £9.9 million, almost the same as last year. However, margins were down, reflecting the switching of activity away from home visits towards advice calls and visits to primary care centres. NMDS now operates fifteen primary care centres and call centres, providing services to over five million patients through more than 2,000 GPs.

Initially, development of Co-operatives was a challenge to our business; it now represents an opportunity. During 1997, Co-operatives have started using our services to supplement their own activities.

We believe that the market-place for this business has now stabilised and we can look forward to the future with cautious optimism.

USA Healthcare
Cross Country Staffing
The merger of our USA Healthcare business with Cross Country Staffing, in which Nestor now holds a 34% equity interest, has been very successful. Profits in 1997 were £2.48 million, an increase of 75% compared with 1996.

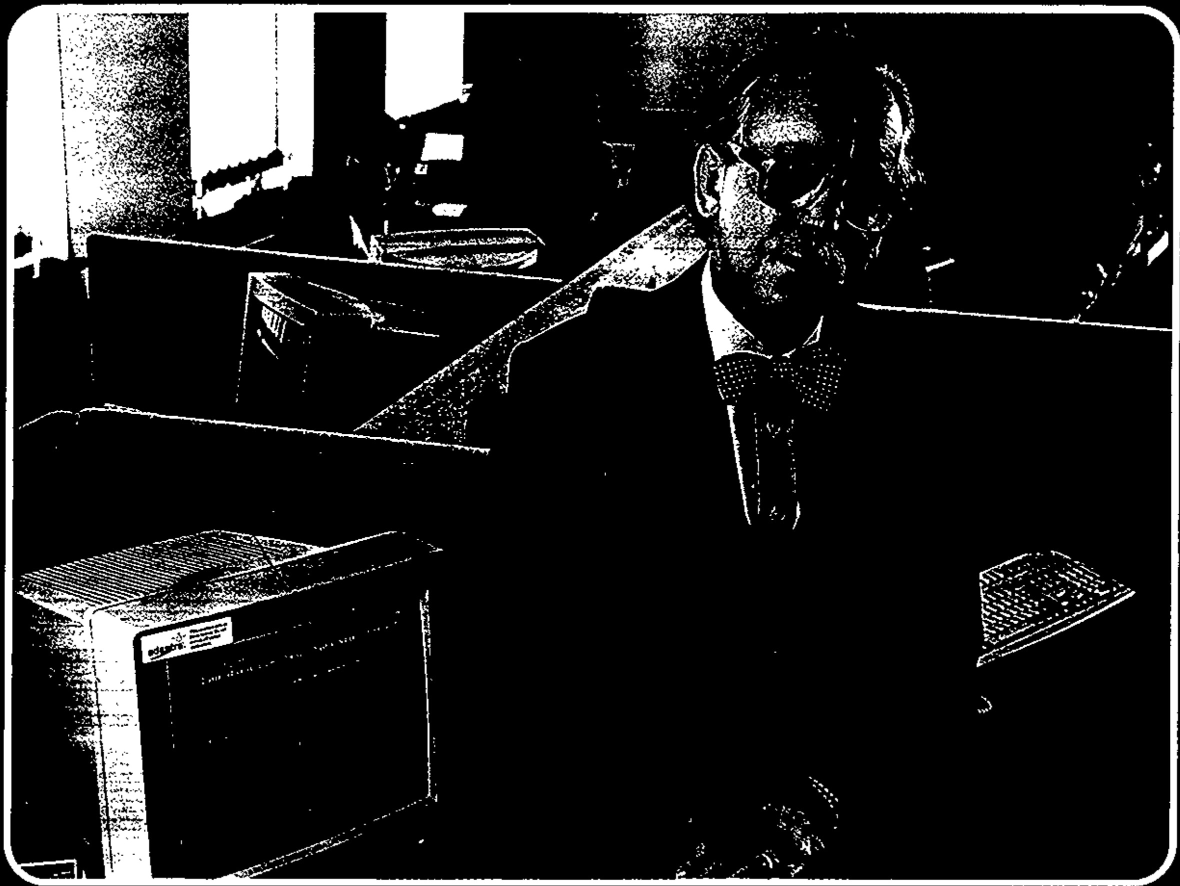
In addition to the benefits of the merger, profits have benefited from an 11% increase in pro forma turnover and improved margins following the favourable trading conditions in 1997.

Cash flows have been strong since the merger in July 1996, generating $15 million in cash flow which has reduced the debt level of Cross Country Staffing.

Justin Jewitt

Justin Jewitt
Chief Executive
23rd March 1998

30% call for advice
The telephone triage and advice service from NMDS reduced the need for people to visit their local GP surgery or receive a home visit, by offering appropriate advice over the telephone.



"With Nestor Medical Duty Services, I can get a good night's sleep and be confident that all my patients will receive the best of care in my absence. Not only that, but when I walk back into the surgery, a computer report tells me everything that happened while I was away."

Dr R M Jarratt, Jockey Road Surgery, Sutton Coldfield

Nestor Medical Duty Services (NMDS) specialises in supplying comprehensive out-of-hours services for GPs and doctors' Co-operatives, including visiting patients in their own homes, providing advice over the telephone and operating local Primary Care Centres where a patient can see a doctor.

Quality standards ensure that the staff NMDS provides are of a high calibre, but having accurate and up-to-date information at the touch of a button is equally important to staff manning the 24-hour helplines. NMDS has invested in infrastructure and computing systems so that this information is available.

Doctors benefit from a seamless extension of their own service. They can return to their surgery knowing exactly which patients have contacted the helpline and the level of care they have received.

Financial Review

Profit before tax for 1997 increased by 28% and earnings per share increased by 31% over the same period.

Turnover

Turnover from continuing operations increased by 26% in 1997 to £173.4 million (1996: £137.2 million). This includes our 34% share of Cross Country Staffing, the USA associate.

Consolidated turnover, which excludes our share of the USA associate turnover, increased by 11% to £144.3 million (1996: £130.0 million).

Profit before tax

Profit before tax for 1997 increased by 28% to £9.71 million (1996: £7.60 million before exceptional items).

Operating profit from continuing operations, including the Group's 34% share of profit of Cross Country Staffing, increased by 28% to £9.21 million (1996: £7.21 million).

Group management and central costs were £1.85 million (1996: £1.59 million) which included the compensation for loss of office to Clive Chapman.

Taxation charge

The average rate of corporation tax for 1997 was 26.5% which compares to 29.2% in 1996. This reduced rate reflects not only the lower level of UK Corporation Tax (31.5% down from 33% in 1996) but also the increased proportion of pre-tax profits arising in the USA and the availability of tax credits against these overseas earnings.

Earnings per share

Earnings per share in 1997 increased by 31% to 9.33 pence (1996: 7.12 pence, FRS 3 loss per share 5.42 pence). This percentage increase is higher than that shown for the adjusted pre-tax profit because the average rate of corporation tax is lower. There is also a slight dilution effect of 0.12 pence because of the increase in the average number of shares in 1997 to 76.5 million (1996: 75.6 million) arising from the exercise of options.

Cash flow

Cash flow from operating activities for 1997 was £2.72 million (1996: £6.23 million). The reduced cash flow is due primarily to increased working capital demands to finance growth. Further exceptional demands from BNA followed the particularly buoyant December trading and the effect of starting a number of new contracts in the second half of 1997 where cash flow is negative in the initial stages of implementation.

There were a number of cash payments and receipts relating to acquisitions and disposals. Receipts totalled £1.70 million including the early redemption of a £1.50 million loan note at full face value from Libra Health. Payments totalled £0.64 million including £0.40 million paid to the vendors of Medic International in January in accordance with the terms of the acquisition.

Net capital expenditure for 1997 increased to £1.90 million (1996: £1.47 million) reflecting investment in systems development.

At the year end, borrowings were £4.00 million, including a loan note of £2.50 million issued to the vendors of Grosvenor Nursing Agency Limited. The remaining borrowings of £1.50 million comprises the Group's net overdraft less cash. This compares to net cash of £0.60 million in 1996.

Shareholders' funds

Closing shareholders' funds were £9.14 million (1996: £6.90 million). The increase reflects retained 1997 profits of £4.16 million, £0.73 million from shares issued following exercise of options, less £2.57 million goodwill written off on the acquisition of Grosvenor, and a £0.08 million negative impact on foreign exchange.

Foreign currency and treasury management

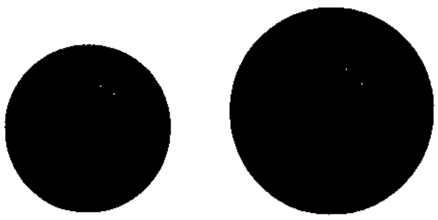
The trading results of overseas businesses are translated into sterling using average exchange rates and the balance sheets at year end rates.

Fluctuations in exchange rates can, therefore, have an effect on the Group's financial results and the balance sheet position at the year end. It is the Group's policy to hedge investments in foreign currency businesses by financing these, in part, with loans denominated in appropriate currencies.

The average US dollar exchange rate for the year was $1.64 (1996: $1.57) and the rate at the year end was $1.64 (1996: $1.69). The effect on profit of movements in the exchange rate was negligible.

David Lyon
Director, Finance and Corporate Planning
23rd March 1998

Pre-tax profit...
increased by 28% in 1997 to £9.71 million (1996: £7.60 million).

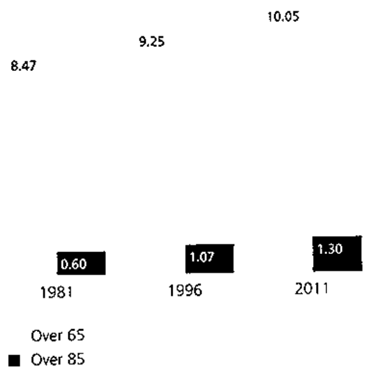


The UK Healthcare Market

UK Healthcare is the largest single market in Western Europe. Worth an estimated £50 billion and growing, demographic trends show demand for healthcare professionals increasing, with supply shrinking.

- The UK healthcare market is the largest single market in Western Europe. Nestor Healthcare estimates it to be worth over £50 billion in 1997.
  - The National Health Service was budgeted to spend £42 billion.
  - Social Services spending on care is over £7 billion.
  - Nursing and residential homes, private patients and private hospitals are estimated to be worth a further £3 billion.
  - Occupational health and institutional health account for another £0.5 billion.
- The NHS is the largest single employer in Western Europe. It is working better and more efficiently, with more patients being treated in elective and non-elective surgery than ever before. The recent White Paper – "The new NHS – *Modern • Dependable*" – is a welcome step towards building an even better performing NHS focused on the patient, in a primary care setting.

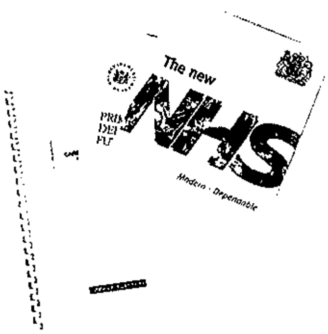
UK population statistics
and projection
millions



Source: Office for National Statistics

- The growth in the healthcare market is driven by the ageing population, requiring more health and social care. The number of people available to provide paid and unpaid health and social care is declining. In 1981 8.47 million of the UK population were over 65 years of age, 0.60 million were over 85. By 1996 these had grown to 9.25 million and 1.07 million respectively and by 2011 they are projected to be 10.05 million and 1.30 million respectively.
- There are now an estimated 645,000 nurses in the UK, 55,000 hospital doctors and 33,000 GPs plus a further one million allied professional and healthcare assistants. All healthcare professions are short of new recruits and under pressure from the growth in demand for health and social care.
- In the nursing profession alone 25% of all nurses will reach retirement age in the next five years, yet new entries to the Nursing Register have fallen by more than 11% over the last five years. Graduate nurses are better trained and equipped for the complex needs of today's NHS but there are just not enough for the growth in demand.

479 business plans analysed
Our dedicated in-house research team analysed all government healthcare literature, all relevant industry publications and the business plans of all NHS Trusts throughout the UK.



Nestor Healthcare's aim is to be the first choice for healthcare professionals in the UK. The Group is addressing the shortage of these professionals with innovative recruitment programmes, professional training courses and the pooling of part-time resources. The result is a flexible staffing resource able to respond rapidly and effectively to the growing needs of the UK healthcare market.

Board of Directors and Advisors

Chairman

David Heywood
62, was appointed non-executive Chairman in September 1994 and became part-time executive Chairman in July 1996. He is Chairman of QS Holdings PLC, and Chairman of Remploy Ltd. Formerly he was deputy Chairman and executive director of British-American Tobacco Co. Ltd.

Other executive directors

Justin Jewitt
43, is Chief Executive. He joined the Group as Managing Director of BNA in May 1994 and was appointed to the Board of Nestor in July 1996. He was previously Managing Director of two of BET's business services companies prior to which he worked in various roles in Thorn EMI and Mobil Oil.

David Lyon
36, was appointed to the Board of Nestor Healthcare with effect from 1st January 1998 as Director responsible for Finance and Corporate Planning. He joined the Company in 1991 as Group Financial Controller.

Non-executive directors

Dr Charles Goodson-Wickes
52, joined the Board in February 1993. He is qualified both as a physician and as a barrister. He was a Member of Parliament for ten years, and served successively as Parliamentary Private Secretary in the Department of the Environment, The Treasury, and the Department of Transport. He holds a number of appointments in industry and commerce.

Francis Howard
62, joined the Board in June 1987. Previously Finance Director of Charter Consolidated PLC, he is a non-executive director of Consolidated Communications Management Limited and other companies.

Robert Nicholls CBE
58, an Independent Healthcare Management Consultant and a former senior manager with the NHS. He joined the Board in September 1997. He is a part-time advisor to the British Council on Health Reform and a lay member of the General Medical Council. He is an Associate Fellow of Templeton College, Oxford.

Secretary
John Wood

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Directors' Report

The directors present their report and the audited financial statements for the year ended 31st December 1997.

Principal activities, results and future developments

Nestor Healthcare Group plc is the holding company of a group of companies in the healthcare sector. The principal activities of the Group are:

- the provision of nurses and carers and healthcare services through the largest nursing agency network in the United Kingdom;
- the provision of doctors' duty services in the North West of England and the West Midlands;
- the provision of locum doctors and other healthcare personnel; and
- investment in a partnership providing travel nursing services throughout the United States of America.

The accompanying Chairman's Statement, Operating Review and Financial Review report on the Group's activities, trading results and future developments.

Results and dividends

The profit for the year after taxation was £7,138,000. An interim dividend of 1.40p per Ordinary Share was paid on 24th October 1997. The directors now recommend a final dividend of 2.47p per Ordinary Share. Following payment of all dividends for the year, totalling 3.87p, an amount of £4,157,000 will have been transferred to reserves.

Acquisition of business

On 20th November 1997 the Company acquired the entire issued share capital of Grosvenor Nursing Agency Limited.

Directors

The Directors who served during the year were D G Heywood, C R Chapman, J J Cockburn, J A S Jewitt, F J A Howard*, C Goodson-Wickes* and R M Nicholls*.

R M Nicholls* was appointed to the Board on 1st September 1997. J J Cockburn and C R Chapman resigned from the Board on 28th December and 31st December 1997 respectively.

D O Lyon was appointed to the Board on 1st January 1998.

In accordance with the Articles of Association, R M Nicholls* and D O Lyon will retire at the Annual General Meeting to be held on 21st May 1998 and, being eligible, will offer themselves for re-election and D G Heywood will retire by rotation at the Annual General Meeting and, being eligible, will offer himself for re-election.

The appointment of R M Nicholls* is for a fixed period of three years expiring on 31st August 2000, renewable thereafter annually for a further one year upon agreement between him and the Board. D O Lyon has a service agreement with the Company which is subject to twelve months' notice of termination. The appointment of D G Heywood is subject to twelve months' notice of termination.

* Non-executive directors

Directors' interests

All directors' interests, including details of shareholdings, are set out in the Report of the Remuneration Committee on pages 19 to 22.

Substantial shareholders

At the date of this report, the Company has been notified of the following interests of 3% or more in the Ordinary Share capital.

	Number	Percentage of issued share capital
Prudential Corporation Group, including clients' managed funds	10,345,548	13.4%
Schroder Investment Management Limited	8,099,334	10.5%
Standard Life Group	6,210,403	8.0%
3i Group plc	3,618,789	4.7%
Electra Investment Trust PLC	2,300,000	3.0%

Share capital
Details of the authorised and issued share capital of the Company during the year ended 31st December 1997 are given in Note 21 to the financial statements.

A Special Resolution will be proposed at the Annual General Meeting, seeking authority for the directors to issue shares of the Company for cash, without complying with the statutory pre-emption procedures, within certain constraints as set out in the Notice of Annual General Meeting. This is similar to the corresponding resolutions passed in previous years. The proposed authority limit represents approximately 5% of the Company's issued share capital. If approved by the Meeting, this power will continue until the next Annual General Meeting of the Company.

A Special Resolution will be proposed at the Annual General Meeting to renew for a further year the Company's general authority to re-purchase its own shares up to a limit of 10%. No purchase of shares has been made pursuant to the authority granted in 1997 and the Directors have no present intention of exercising the requested authority. Purchases would only be made if the directors considered it to be in the best interest of the shareholders and if the purchase could be expected to result in an increase in earnings per share. It is anticipated that renewal of the authority will be proposed at subsequent Annual General Meetings.

Share schemes
Information regarding share options issued and exercisable under the Employee Share Option Scheme, the Company Share Option Plan 1996, the Employee Share Option Scheme 1996 and the Nestor Healthcare Group Savings Related Share Option Scheme, is given in Note 26 to the financial statements. Information relating to the share options issued to and exercisable by the directors is stated in the Report of the Remuneration Committee set out on pages 19 to 22.

Company name
The name of the Company was changed to Nestor Healthcare Group plc on 13th June 1997. The purpose of the name change was to reflect the Company's focus on healthcare.

Charitable and political donations
No charitable or political donations were made during the year.

Taxation status
The Company is not a close company within the provisions of the Income and Corporation Taxes Act 1988.

Disabled employees
It is the Group's policy that disabled persons should be considered for employment, training, career development and promotion on the basis of their abilities and aptitudes in common with all employees.

Employee involvement
The Group attaches considerable importance to ensuring that all its employees are provided with information concerning them as employees, particularly the economic and financial factors affecting the Group's performance.

Internal circulars and newsletters are issued regularly and consultation between management and their staff is an ongoing process.

Creditor payment policy
It is the Group's policy to have appropriate terms and conditions for transactions with suppliers, ranging from standard terms and conditions to specific negotiated contracts, and that, in the absence of dispute, payment be made in accordance with those terms and conditions and conforming to the CBI Code of Best Practice.

The directors' reports of United Kingdom operating companies give information about their creditor payment policies as required by the Companies Act. The Company, as a holding company, does not itself make any relevant payments in this respect.

Auditors
A resolution proposing the re-appointment of Coopers & Lybrand, Chartered Accountants, as auditors to the Company and authorising the directors to determine their remuneration will be put to the Annual General Meeting.

Approved by the Board on 23rd March 1998 and signed on its behalf by

J Wood *Secretary*

Report of the Remuneration Committee

for the year ended 31st December 1997

1. Composition of the Remuneration Committee

The Remuneration Committee ("the Committee") is chaired by D G Heywood and meets at least annually and at other times as necessary. The Committee comprises D G Heywood, C Goodson-Wickes, F J A Howard and R M Nicholls.

2. Compliance

Except for the inclusion of the part-time executive Chairman on the Committee, its constitution and operation are in compliance with the principles of, and the Company has complied with, Section A of The Best Practice Provisions annexed to The Listing Rules of the London Stock Exchange. The Committee confirms that full consideration has been given to Section B of The Best Practice Provisions annexed to The Listing Rules in determining the remuneration packages for directors.

3. Policy on remuneration of executive directors

The Committee aims to ensure that remuneration packages offered are competitive and designed to attract, retain and motivate executive directors of the right calibre. The main components of remuneration are:

- Basic salary
  Basic salary is determined by the Committee, taking into account the performance of the individual and with reference to external professional advice on the rates of salary for similar jobs in comparable companies;
- Bonus
  The targets for bonuses are set by the Committee, balancing the short term and the longer term. Superior performance is encouraged by providing challenging performance goals which must be achieved before the bonus is payable. The bonus scheme includes individual objectives and targets linked to the Group's performance in profit before tax and earnings per share;
- Share options
  The Company believes that share ownership by executive directors strengthens the link between their personal interests and those of shareholders.

The Chairman's emoluments comprise a basic salary only, determined at a meeting of the Committee in which the Chairman does not participate.

4. Employee share option schemes

The Committee is responsible for approving grants of options and for determining whether the performance criteria, which have to be satisfied as a pre-condition to the exercise of options, have been met. It is policy to grant options under the schemes at the market value of the Company's ordinary shares at the time of grant.

The exercise of the options held under the Employee Share Option Scheme is conditional on the following performance criteria:

- Section A options – growth in the Company's earnings per share (EPS) over any four consecutive accounting periods of the Company, commencing no earlier than the accounting period ending immediately prior to the date of grant and ending no later than the accounting period ending immediately prior to the date of exercise, exceeding the percentage increase in the UK retail prices index for the period commencing with the last month of the first accounting period used to determine the Company's EPS and ending with the last month of the fourth of the accounting periods used for that purpose; and
- Section B options – the Company's EPS over any six consecutive accounting periods of the Company, commencing and ending within the same limits as apply in determining the Company's EPS for the purpose of Section A options, placing the Company in the top quartile of FT-SE 100 companies by reference to percentage growth in EPS over the same period.

The exercise of the options held under the Company Share Option Plan 1996 and Employee Share Option Scheme 1996 is conditional on the attainment of the performance criteria that the Committee has imposed. Exercise may take place only if, for a consecutive period of three financial years ending on dates following the date of grant, there has been growth in the Company's earnings per share of at least fifteen per cent above the growth in the UK retail prices index.

5. Savings Related Share Option Scheme

The Company operates a savings related share option ("SAYE") scheme which provides a long-term savings and investment opportunity for employees. The Scheme is open to all UK employees who have been with the Group for at least three months and are able to contract to pay monthly savings. Executive directors participate on equal terms with other employees. The options may be exercised normally after three or five years at a price which is fixed at a discount of up to 20% from the mid-market price on the business day before the Date of Invitation applying to each option.

6. Company policy on contracts of service

The Chairman has no service contract but holds a letter of appointment terminable on one year's notice and, if no notice has been given, renewable in September 2000.

Each other executive director has a service contract which is subject to one years' notice of termination. In the event of a change of control of the Company, termination is subject to two years' notice.

Non-executive directors are offered letters of appointment for fixed periods of three years, renewable one year at a time thereafter subject to agreement between the director and the Board.

7. Company pensions policy regarding executive directors

Executive directors become members of the Company's retirement benefits scheme. The Scheme is a funded, Inland Revenue approved, final salary, occupational pension scheme. They are entitled to a pension based on final salary (excluding bonuses) and length of pensionable service, subject to Inland Revenue limits. Members subject to the Inland Revenue cap may be offered additional death-in-service benefits in a separate unapproved scheme. The Company agreed to contribute to a personal pension plan for J A S Jewitt prior to the establishment of this policy.

8. Directors' emoluments

	Basic salary and fees 1997 £000	Taxable benefits 1997 £000	Performance related bonuses 1997 £000	Total emoluments excluding pensions 1997 £000	1996 £000
D G Heywood	88	–	–	88	61
R M Nicholls	7	–	–	7	–
C R Chapman	127	14	58	199	166
J J Cockburn	91	7	12	110	101
J A S Jewitt	127	8	58	193	74
C Goodson-Wickes	20	–	–	20	17
F J A Howard	22	–	–	22	20
M G Rogers	–	–	–	–	99
Total 1997	482	29	128	639	
Total 1996	441	32	65		538

C R Chapman resigned on 31st December 1997 and was paid £127,720 in respect of loss of office in accordance with his service contract and a contribution was made by the Company to the pension fund of £25,544. He also received £12,670 for back holiday pay. In addition the Board agreed to his retaining options to subscribe for 110,700 ordinary shares granted in November 1996 at 115p per share under the Employee Share Option Scheme 1996. These options are exercisable in December 1998.

J A S Jewitt became a director on 15th July 1996 and R M Nicholls became a director on 1st September 1997. The emoluments stated relate to the period after each became a director.

M G Rogers resigned on 15th July 1996.

J J Cockburn resigned on 28th December 1997.

The figures above represent emoluments earned as directors during the relevant financial year. Such emoluments are paid in the same financial year with the exception of bonuses, which are paid in the year following that in which they are earned.

9. Directors' pensions

Defined benefit scheme	Accrued pension per annum at 31st December 1997 £000	Increase in accrued pension per annum during 1997 excluding price inflation £000	Transfer value of the increase less director's contributions £000
J J Cockburn	37	6	103
C R Chapman	21	8	61

Notes:

1. The transfer values have been calculated on the basis of actuarial advice in accordance with the Actuarial Guidance Note GN11.
2. J J Cockburn retired before normal retirement age on 28th December 1997 with an immediate ill-health pension of £36,800 per annum as shown in the above table. The transfer value of the increase shown above includes the associated early retirement cost.
3. The increase in accrued pension per annum during 1997 and the transfer value include the benefit resulting from the contribution of £25,544 made after the resignation of C R Chapman.
4. The above figures exclude any benefits derived from directors' additional voluntary contributions.

Defined contribution scheme

Employer contributions of £12,648 were paid during the year to a personal pension plan for J A S Jewitt.

10. Directors' interests

The beneficial and family interests of directors in the share capital of the Company according to the register of directors' interests maintained by the Company under Section 325, Companies Act 1985 were:

	Ordinary Shares		Share Options Employee Scheme		Share Options Employee Scheme 1996		Share Options SAYE Scheme	
	31.12.97	31.12.96	31.12.97	31.12.96	31.12.97	31.12.96	31.12.97	31.12.96
D G Heywood	350,789	300,290	–	–	–	–	–	–
C R Chapman	20,089	–	–	330,000	110,700	221,400	–	20,089
F J A Howard	5,446	12,251	–	–	–	–	–	–
J A S Jewitt	153,846	–	–	177,800	221,400	221,400	28,750	28,750

Notes:

1. Between 31st December 1997 and the date of this report there were no changes in the interests of the directors in the share capital of the Company.
2. Upon his resignation, 180,000 Employee Scheme options and 110,700 Employee Scheme 1996 options held by C R Chapman lapsed.
3. None of the directors has any non-beneficial interest in the Company's share capital.
4. None of the directors at 31st December 1997 holds any options under the Company Share Option Plan 1996.
5. No director was materially interested in any contract of significance (apart from contracts of service) with any Group company during or at the end of the financial year.

10. Directors' interests continued

Details of share options held by the directors during the year were:

	Scheme (see below)	1st January 1997	Number of options Exercised	Lapsed	31st December 1997	Exercise price	Market price on date of exercise	Date from which exercisable	Expiry date
C R Chapman	1.	80,000	80,000	–	–	86p	161p	Oct 93	Oct 00
		20,000	20,000	–	–	67p	161p	Oct 94	Oct 01
		50,000	50,000	–	–	53p	161p	May 96	May 03
	2.	40,000	–	40,000	–	86p	–	Oct 95	Oct 00
		140,000	–	140,000	–	53p	–	May 98	May 03
	3.	221,400	–	110,700	110,700	115p	–	Dec 98	Dec 98
	4.	20,089	20,089	–	–	56p	131p	Nov 96	May 97
J J Cockburn	1.	6,227	6,227	–	–	145p	160p	Apr 92	Apr 99
		11,500	11,500	–	–	86p	160p	Oct 93	Oct 00
		17,644	17,644	–	–	119p	160p	Aug 92	Aug 99
	2.	14,531	–	14,531	–	72p	–	Dec 92	Dec 97
		15,250	–	–	15,250	86p	–	Oct 95	Oct 00
		120,000	120,000	–	–	53p	191p	May 98	May 03
	3.	79,000	–	79,000	–	115p	–	Nov 99	Nov 03
J A S Jewitt	1.	177,800	177,800	–	–	45p	160p	Oct 97	Oct 04
	3.	221,400	–	–	221,400	115p	–	Nov 99	Nov 03
	4.	28,750	–	–	28,750	60p	–	Dec 00	Jun 01

Schemes:

1. Employee Share Option Scheme, Section A options
2. Employee Share Option Scheme, Section B options
3. Employee Share Option Scheme 1996 options
4. SAYE Scheme options

Notes:

1. During the year there were no share options granted to the directors.
2. J J Cockburn resigned before exercising 120,000 Employee Share Option Scheme, Section B options.
3. The aggregate of gains made by the directors on the exercise of share options was £369,014. This excludes the gain made by J J Cockburn after he had resigned. In 1996 the aggregate of gains made by the directors was £39,483.
4. There is no cost to the employee for receipt of the Employee Share Option Scheme or Employee Share Option Scheme 1996 options. Deductions from earnings are made in respect of the SAYE Scheme.
5. Employee Share Option Scheme and Employee Share Option Scheme 1996 option prices are fixed at the mid-market price on the business day preceding the Date of Grant.
6. SAYE Scheme option prices are fixed at a discount of up to 20% below the mid-market price on the business day before the Date of Invitation applying to each option.
7. The mid-market price at the end of the year was 191.5 pence and the range during the year was 123.5 pence to 193.5 pence.

On behalf of the Board

David Heywood, *Chairman, Remuneration Committee*
23rd March 1998

Directors' Responsibilities

in respect of the preparation of financial statements

The directors are required by company law to prepare financial statements which give a true and fair view of the state of affairs of the Company and the Group at the end of the financial year and of the profit and cash flows of the Group for the period to that date. The financial statements must be prepared in compliance with the required formats and disclosures of the Companies Act 1985 and in accordance with applicable accounting standards. In addition, the directors are required

- to adopt suitable accounting policies and then apply them consistently;
- to make judgements and estimates that are reasonable and prudent;
- to take account of expenses and income relating to the period being reported on, whether or not they have been paid or received in that period; and
- to prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that the financial statements comply with the above requirements.

The directors are also responsible for maintaining adequate accounting records so as to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985, for safeguarding the assets of the Group, and for preventing and detecting fraud and other irregularities.

Corporate Governance

The Board

The Board currently comprises the part-time executive Chairman, D G Heywood; two executive directors, J A S Jewitt and D O Lyon; and three non-executive directors, C Goodson-Wickes, F J A Howard and R M Nicholls. The Board is responsible to shareholders for the proper management of the Group and meets regularly throughout the year, normally on a monthly basis, setting and monitoring Group strategy, reviewing trading performance, advising on senior management appointments, formulating policy on key issues and reporting to shareholders.

The Board has appointed Audit and Remuneration Committees, both with formal constitutions.

Audit Committee

The Audit Committee is chaired by F J A Howard, comprises the Chairman and the non-executive directors and meets at least twice a year. The principal duties of the Committee are

- to recommend the appointment, scope and fees of the external auditors;
- to ensure that appropriate accounting policies and controls are in place and applied consistently;
- to ensure that financial statements are prepared in accordance with accounting standards and Stock Exchange and legal requirements; and
- to provide a forum through which the Group's auditors report to the Board.

Remuneration Committee

The Remuneration Committee is chaired by D G Heywood, comprises the Chairman and the non-executive directors and meets at least annually and at other times as necessary. The principal duties of the Committee are

- to assess the responsibilities and performance of executive directors and certain other key executives and, with reference to professional external advice, determine their annual remuneration, bonuses and longer term incentives, including share options; and
- to decide the granting of share options to executive directors and other employees, and to administer the share option schemes in accordance with the rules.

The report of the Remuneration Committee is given on pages 19 to 22.

Going concern

The directors confirm that, after reviewing the financial position and cash flows of the Group, they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Internal financial control

The directors are responsible for the Group's system of internal financial control. Such a system can provide reasonable but not absolute assurance against material mis-statement or loss.

The key procedures which are designed to provide effective internal financial control are as follows:

- operating divisions maintain internal financial controls appropriate to their respective businesses. These conform to all Group policies as set out in the Group Accounting Policies and Procedures Manual. This sets out the accounting polices of the Group and the framework of internal financial control. Within the Manual, the duties of the Audit Committee, Group finance staff and divisional management are clearly set out with respect to internal financial control;
- divisional management are required annually to review the effectiveness of their systems of internal financial control and to complete an internal financial control questionnaire. At the year end they are required to confirm that they have reviewed for the whole year their system of internal financial control. Group finance staff review the completed questionnaires and make visits to operating sites where the internal financial controls are further reviewed. The results of this process are reported to the Audit Committee;
- major business risks are identified to the Board in respect of each business area and monitored through monthly reports from divisional and group management which set out all major business issues. The Group operates a comprehensive budgeting and forecasting system where monthly results are reviewed and major variances investigated; and
- as part of their normal annual audit procedures, Coopers & Lybrand review internal financial controls to the extent necessary to enable them to form an opinion on whether the accounts give a true and fair view. Within this scope of work they review the completed internal financial control questionnaires for accuracy and completeness. The results of this process are reported annually to the Audit Committee.

The directors confirm that, for the year ended 31st December 1997, they have reviewed the effectiveness of their systems of internal financial control.

Compliance with the Code of Best Practice

The Group complies with the provisions of the Code of Best Practice, as contained in the Report of the Cadbury Committee on the Financial Aspects of Corporate Governance, except for the composition of the Audit Committee, which includes the part-time executive Chairman of the Company. The report of the auditors on corporate governance matters is given on page 25.

Auditors' Report on Corporate Governance Matters

Report of the auditors to Nestor Healthcare Group plc

In addition to our audit of the financial statements, we have reviewed the directors' statement on page 24 on the Group's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43 (j) and 12.43 (v).

Basis of opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or its corporate governance procedures, nor on the ability of the Group to continue in operational existence.

Opinion

With respect to the directors' statements on internal financial control and on going concern on page 24, in our opinion the directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the Company, and examination of the relevant documents, in our opinion the directors' statement on page 24 appropriately reflects the Group's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).

Coopers & Lybrand
Chartered Accountants
London

23rd March 1998

Auditors' Report

Report of the auditors to the members of Nestor Healthcare Group plc

We have audited the financial statements on pages 26 to 44.

Responsibilities of directors and auditors

As described on page 23, the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31st December 1997 and of the profit, total recognised gains, and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand
Chartered Accountants and Registered Auditors
London

23rd March 1998

Consolidated Profit and Loss Account

for the year ended 31st December 1997

	Notes	1997 £000	1996 £000
Turnover			
Continuing operations – ongoing		**142,753**	124,574
Continuing operations – acquisition		**1,589**	–
Discontinued operations		–	5,442
	2, 3	**144,342**	130,016
Cost of sales		**(114,266)**	(102,245)
Gross profit		**30,076**	27,771
Administrative expenses		**(23,342)**	(21,007)
Operating profit			
Continuing operations – ongoing	3	**6,672**	6,438
Continuing operations – acquisition		**62**	–
Discontinued operations		–	326
		6,734	6,764
Income from interest in associated undertaking		**2,479**	772
	3	**9,213**	7,536
Exceptional items			
Loss on sale of discontinued operations	7	–	(9,623)
Profit (loss) on ordinary activities before interest		**9,213**	(2,087)
Interest receivable less payable	8	**498**	64
Profit (loss) on ordinary activities before taxation		**9,711**	(2,023)
Taxation	9	**(2,573)**	(2,071)
Profit (loss) on ordinary activities after taxation		**7,138**	(4,094)
Dividends	11	**(2,981)**	(2,640)
Retained for the year	22	**4,157**	(6,734)
Earnings (loss) per share			
FRS 3 basis	12	**9.33p**	(5.42p)
Adjustment for exceptional items		–	12.54p
Before exceptional items		**9.33p**	7.12p
Dividends per share	11	**3.87p**	3.47p

The historical cost profit (loss) on ordinary activities before taxation and the historical cost profit (loss) retained for the year after taxation and dividends are the same as those reported above.

Statement of Total Recognised Gains and Losses

for the year ended 31st December 1997

	Notes	1997 £000	1996 £000
Profit (loss) for the financial year		**7,138**	(4,094)
Currency translation differences on foreign currency net investments	22	**(84)**	239
Total recognised gains and losses relating to the year		**7,054**	(3,855)

Reconciliation of Movements in Shareholders' Funds

for the year ended 31st December 1997

	Notes	1997 £000	1996 £000
Profit (loss) for the financial year		**7,138**	(4,094)
Dividends	11	**(2,981)**	(2,640)
Other recognised gains and losses for the year		**(84)**	239
Shares issued during the year		**731**	722
Goodwill arising in the year written off	15	**(2,565)**	(7,762)
Goodwill transferred to the profit and loss account in respect of disposal of business		**–**	15,786
		2,239	2,251
Opening shareholders' funds		**6,901**	4,650
Closing shareholders' funds		**9,140**	6,901

Consolidated Balance Sheet

as at 31st December 1997

	Notes	1997 £000	1996 £000
Fixed assets			
Tangible fixed assets	13	**3,685**	2,712
Investments	15	**870**	(34)
Total fixed assets		**4,555**	2,678
Current assets			
Debtors	16	**22,887**	14,621
Cash at bank and in hand		**290**	893
		23,177	15,514
Creditors – amounts falling due within one year	17	**(16,808)**	(11,060)
Net current assets		**6,369**	4,454
Total assets less current liabilities		**10,924**	7,132
Creditors – amounts falling due after more than one year	18	**(1,642)**	(114)
Provisions for liabilities and charges			
Deferred taxation	20	**(142)**	(117)
Net assets		**9,140**	6,901
Capital and reserves			
Called up share capital	21	**7,718**	7,612
Share premium account	22	**2,548**	1,923
Other reserves	22	**(7,846)**	(5,197)
Profit and loss account	22	**6,720**	2,563
Equity shareholders' funds		**9,140**	6,901

The financial statements on pages 26 to 44 were approved by the Board on 23rd March 1998 and were signed on its behalf by

D G Heywood

D O Lyon

Company Balance Sheet
as at 31st December 1997

	Notes	1997 £000	1996 £000
Fixed assets			
Tangible fixed assets	13	**45**	93
Investments	15	**38,812**	37,505
Total fixed assets		**38,857**	37,598
Current assets			
Debtors	16	**8,197**	7,411
Cash at bank and in hand		**8,011**	4,851
		16,208	12,262
Creditors – amounts falling due within one year	17	**(5,387)**	(4,176)
Net current assets		**10,821**	8,086
Total assets less current liabilities		**49,678**	45,684
Creditors – amounts falling due after more than one year	18	**(1,500)**	–
Net assets		**48,178**	45,684
Capital and reserves			
Called up share capital	21	**7,718**	7,612
Share premium account	22	**2,548**	1,923
Other reserves	22	**25,750**	25,750
Profit and loss account	22	**12,162**	10,399
Equity shareholders' funds		**48,178**	45,684

The financial statements on pages 26 to 44 were approved by the Board on 23rd March 1998 and were signed on its behalf by

D G Heywood

D O Lyon

Consolidated Cash Flow Statement

for the year ended 31st December 1997

	1997 £000	1997 £000	1996 £000	1996 £000
Net cash inflow from operating activities		**2,722**		6,226
Returns on investments and servicing of finance				
Interest paid	**(30)**		(246)	
Interest received	**154**		110	
Net cash inflow (outflow) from returns on investments and servicing of finance		**124**		(136)
Taxation				
Corporation tax paid	**(2,087)**		(1,818)	
Tax paid		**(2,087)**		(1,818)
Net cash inflow before investing activities and equity dividends paid		**759**		4,272
Capital expenditure and financial investment				
Purchase of tangible fixed assets	**(1,980)**		(1,590)	
Sale of tangible fixed assets	**75**		117	
Net cash outflow from capital expenditure and financial investment		**(1,905)**		(1,473)
Acquisitions and disposals				
Purchase of businesses	**(491)**		(1,172)	
Net overdraft acquired with subsidiary	**(118)**		–	
Cost of merger of USA Healthcare operation	–		(421)	
Sale of discontinued operations, including adjustments	**(27)**		5,982	
Receipts from loan note redemptions	**1,703**		–	
Net cash inflow from acquisitions and disposals		**1,067**		4,389
Equity dividends paid				
Dividends paid	**(2,749)**		(2,467)	
Total equity dividends paid		**(2,749)**		(2,467)
Financing				
Issue of ordinary share capital	**731**		722	
Decrease in loans other than from banks	–		(4,491)	
Net cash inflow (outflow) from financing		**731**		(3,769)
(Decrease) increase in cash		**(2,097)**		952

The above format is in accordance with the revised FRS 1 statement on cash flow statements.
The notes to the Consolidated Cash Flow Statement are shown in Note 23 to the financial statements.

Notes to the Financial Statements

for the year ended 31st December 1997

Note 1 Accounting Policies

Basis of accounting

The financial statements have been prepared in accordance with applicable accounting standards under the historical cost convention. Accounts are made up to the nearest practicable Friday to 31st December each year.

Basis of consolidation

The Group financial statements comprise a consolidation of the financial statements of the Company and all its subsidiary undertakings. Where a subsidiary undertaking has been disposed of during the year, the results of that subsidiary undertaking are included to the date of the disposal. Associated undertakings are accounted for using the equity method.

Depreciation

Depreciation of fixed assets is provided where it is necessary to reflect a reduction from book value to estimated residual value over the useful life of the asset to the Group. It is the Group's policy to maintain its properties in a state of good repair, and in the case of freehold and long leasehold properties, the directors consider that the lives of these properties and their residual values are such that their depreciation is not significant. Accordingly, no depreciation is provided on freehold and long leasehold properties. Other fixed assets are written off by equal instalments over their anticipated useful lives of between three and eight years.

Deferred taxation

Deferred taxation is provided on the liability method where, in the opinion of the directors, it is probable that the liability will crystallise in the foreseeable future.

Goodwill

Goodwill arises when the consideration paid for a business or company exceeds the fair value of the net tangible assets acquired. Any goodwill arising is written off immediately against reserves at the date of acquisition.

Pension costs

Pension costs are charged to the profit and loss account in such a way as to provide for the liabilities evenly over the remaining working lives of the employees.

Leases

Where fixed assets are financed by leasing agreements which give rights approximately equivalent to ownership (finance leases) the assets are capitalised. The corresponding lease commitments are treated as obligations to the lessor. All other lease payments are charged to the profit and loss account in the year to which they relate, including the cost of leases of land and buildings not occupied by the Group.

Foreign currencies

The trading results and cash flows of overseas subsidiary undertakings are translated into sterling using the average rates of exchange. The balance sheets of overseas subsidiary undertakings are translated into sterling at the rates of exchange ruling at the year end. Exchange differences arising on translation into sterling are dealt with through reserves. Where the Company takes out foreign currency loans to hedge its investments in overseas subsidiary undertakings, both the loan and that part of the investment matched to the loan are translated into sterling at the year-end rate. The remaining element of the investment is translated at the rate ruling at the date of the investment except in those instances where forward exchange contracts have been arranged, in which case, the forward rate is used.

Note 2 Turnover

Turnover represents the amount invoiced net of value added tax in respect of the provision of services to customers during the year.

for the year ended 31st December 1997

Note 3 Analysis of turnover, operating profit and net assets

	Turnover		Operating profit and share of profit of associate	
	1997 £000	1996 £000	**1997 £000**	1996 £000
Turnover and operating profit, including share of associate by geographical location				
United Kingdom	**144,342**	119,013	**6,734**	6,115
United States of America	**29,029**	23,609	**2,479**	1,421
	173,371	142,622	**9,213**	7,536
United States of America – share of associate turnover	**(29,029)**	(12,606)	**–**	–
	144,342	130,016	**9,213**	7,536
Turnover and operating profit, including share of associate by business activity				
UK Healthcare				
Ongoing	**142,753**	113,571	**8,527**	7,380
Acquired businesses	**1,589**	–	**62**	–
Central costs	**–**	–	**(1,855)**	(1,591)
	144,342	113,571	**6,734**	5,789
USA Healthcare				
As a subsidiary	**–**	11,003	**–**	649
Share of associate	**29,029**	12,606	**2,479**	772
	29,029	23,609	**2,479**	1,421
Total continuing operations	**173,371**	137,180	**9,213**	7,210
Discontinued operations				
UK Specialised Personnel	**–**	5,442	**–**	326
Total	**173,371**	142,622	**9,213**	7,536
USA Healthcare – share of associate turnover	**(29,029)**	(12,606)	**–**	–
	144,342	130,016	**9,213**	7,536

There is no material difference between the geographical analysis of turnover by origin and by destination.

Note 3 Analysis of turnover, operating profit and net assets – continued

Turnover, cost of sales, gross profit, administrative expenses, operating profit and share of profit of associate are analysed between continuing and discontinued operations as follows:

	Continuing - ongoing 1997 £000	Continuing - acquisition 1997 £000	Discontinued 1997 £000	Total 1997 £000
Turnover	**142,753**	**1,589**	**–**	**144,342**
Cost of sales	**(112,820)**	**(1,446)**	**–**	**(114,266)**
Gross profit	**29,933**	**143**	**–**	**30,076**
Administrative expenses	**(23,261)**	**(81)**	**–**	**(23,342)**
Operating profit	**6,672**	**62**	**–**	**6,734**
Share of profit of associate	**2,479**	**–**	**–**	**2,479**
Total operating profit and share of profit of associate	**9,151**	**62**	**–**	**9,213**
	1996 £000	1996 £000	1996 £000	1996 £000
Turnover	124,574	–	5,442	130,016
Cost of sales	(98,216)	–	(4,029)	(102,245)
Gross profit	26,358	–	1,413	27,771
Administrative expenses	(19,920)	–	(1,087)	(21,007)
Operating profit	6,438	–	326	6,764
Share of profit of associate	772	–	–	772
Total operating profit and share of profit of associate	7,210	–	326	7,536

Analysis of net operating assets	Net operating assets 1997 £000	Net operating assets 1996 £000
Analysis of net operating assets by geographical location		
United Kingdom	**27,819**	23,265
United States of America	**34,256**	31,909
	62,075	55,174
Analysis of net operating assets by business activity		
UK Healthcare	**31,633**	22,557
USA Healthcare	**34,256**	31,909
Central	**(3,814)**	708
Continuing operations	**62,075**	55,174
Net assets per consolidated balance sheet	**9,140**	6,901
Overdrafts (cash)	**1,502**	(595)
Goodwill written off	**51,433**	48,868
Total net operating assets, including goodwill	**62,075**	55,174

Note 4 Operating profit

	1997 £000	1996 £000
Operating profit is stated after charging (crediting)		
Depreciation	**980**	724
Net profit on sale of tangible fixed assets	**(8)**	(10)
Hire of plant and machinery	**–**	3
Auditors' remuneration – audit	**119**	78
Rents received net of outgoings	**(245)**	(135)
Rent of premises	**1,512**	1,531

Remuneration of the Company's auditors in respect of other services amounted to £140,000 (1996 – £191,000). Auditors' remuneration in respect of the Company's audit amounted to £23,000 (1996 – £22,000).

Note 5 Employees

	1997 £000	1996 £000
Employee costs		
Wages and salaries	**13,837**	12,208
Social security costs	**1,048**	951
Other pension costs	**487**	392
	15,372	13,551

	1997	1996
Employee numbers		
The average number of persons employed by the Group during the year was		
Full-time	**589**	564
Part-time	**954**	775
	1,543	1,339

Note 6 Directors' emoluments

	1997 £000	1996 £000
Employee costs includes the following emoluments in respect of the directors		
Fees, basic salaries, bonuses and benefits	**639**	555
Pension contributions	**100**	153
Compensation for loss of office	**166**	300
	905	1,008

The total emoluments of the highest paid director were £410,000 (1996 – £187,000) including pension contributions of £13,000 (1996 – £21,000) and gains on the exercise of share options of £204,000 (1996 – nil). Further disclosure of directors' emoluments is set out in the Report of the Remuneration Committee on pages 19 to 22.

Note 7 Exceptional items

	1997 £000	1996 £000
Loss on sale of discontinued operations	**–**	(9,623)

The loss on sale of discontinued operations relates to the disposal of Hewitson-Walker and Scott-Grant on 17th May 1996 to their respective managements, including £450,000 costs and compensation for loss of office of M G Rogers.

Note 8 Interest received less payable

	1997 £000	1996 £000
On bank loans, overdrafts and other loans		
repayable within five years, not by instalments	**(33)**	(14)
repayable within five years, by instalments	**(23)**	(175)
Investment income – bank interest and other income receivable	**554**	253
	498	64

Note 9 Taxation

	1997 £000	1996 £000
Corporation tax at 31.5% (1996 – 33%) on taxable profit for the year	**2,456**	1,890
Over-provision in previous years	**(16)**	(2)
Deferred tax	**25**	34
Overseas taxes	**108**	149
	2,573	2,071

The taxation charge has been reduced by the availability of tax allowable deductions in the USA. There is a reduced tax charge in relation to the share of profit of associated undertakings.

Note 10 Profit (loss) for the year

The profit for the year dealt with in the accounts of the Company amounts to £4,744,000 (1996 – £5,980,000 loss). The profit retained by subsidiary companies is £2,394,000 (1996 – £1,888,000). Under the provisions of Section 230, Companies Act 1985, the Company has not published its own profit and loss account.

Note 11 Dividends

	1997 £000	1996 £000
Dividends paid		
Ordinary shares: 1.40p per share (1996 – 1.27p)	**1,074**	965
Dividends proposed		
Ordinary shares: 2.47p per share (1996 – 2.20p)	**1,907**	1,675
	2,981	2,640

Note 12 Earnings (loss) per share

	1997	1996
FRS 3 basis	**9.33p**	(5.42p)
Adjustment for exceptional items	**–**	12.54p
Before exceptional items	**9.33p**	7.12p

The FRS 3 earnings per share has been calculated on earnings of £7,138,000 (1996 – loss £4,094,000) and on the weighted average number of shares of 76,525,000 (1996 – 75,559,000). The adjusted earnings per share for 1996 was calculated on pre-exceptional, post-tax earnings of £5,381,000.

No figure for fully diluted earnings per share is shown because the difference from the basic earnings per share is less than 5%.

Note 13 Tangible fixed assets

	Land & buildings Freehold £000	Land & buildings Leasehold £000	Plant & equipment, fixtures & fittings & vehicles £000	Total £000
Group				
Cost				
At 1st January 1997	73	14	6,325	6,412
Additions	–	–	1,980	1,980
On acquisition of business	–	–	87	87
Disposals	–	(5)	(1,725)	(1,730)
At 31st December 1997	73	9	6,667	6,749
Depreciation				
At 1st January 1997	–	4	3,696	3,700
On acquisition of business	–	–	46	46
Eliminated on disposals	–	(2)	(1,660)	(1,662)
Charge for the year	–	7	973	980
At 31st December 1997	–	9	3,055	3,064
Net book value				
At 31st December 1997	73	–	3,612	3,685
At 31st December 1996	73	10	2,629	2,712
Company				
Cost				
At 1st January 1997	–	–	202	202
Additions	–	–	8	8
Disposals	–	–	(42)	(42)
At 31st December 1997	–	–	168	168
Depreciation				
At 1st January 1997	–	–	109	109
Eliminated on disposals	–	–	(17)	(17)
Charge for the year	–	–	31	31
At 31st December 1997	–	–	123	123
Net book value				
At 31st December 1997	–	–	45	45
At 31st December 1996	–	–	93	93

Note 14 Capital commitments

	1997 £000	1996 £000
Capital expenditure that has been contracted but not provided for	–	62

Note 15 Fixed asset investments

	Share of net liabilities of associate £000	Libra loan note £000	Scott-Grant loan note £000	Total £000
Group				
At 1st January 1997	(2,484)	1,101	1,349	(34)
Additions				
Share of retained profit of associate	2,291	–	–	2,291
Increase in carrying value of loan note	–	399	–	399
Redemption of loan note	–	(1,500)	–	(1,500)
Part repayment of loan note from purchaser of Scott-Grant	–	–	(203)	(203)
Foreign exchange movements	(83)	–	–	(83)
At 31st December 1997	(276)	–	1,146	870

	Investment in subsidiaries £000	Libra loan note £000	Scott-Grant loan note £000	Total £000
Company				
At 1st January 1997	35,055	1,101	1,349	37,505
Additions				
Acquisition of Grosvenor Nursing Agency Limited	2,611	–	–	2,611
Increase in carrying value of loan note	–	399	–	399
Redemption of loan note	–	(1,500)	–	(1,500)
Part repayment of loan note from purchaser of Scott-Grant	–	–	(203)	(203)
At 31st December 1997	37,666	–	1,146	38,812

Principal undertakings

Undertaking	Business
British Nursing Co-operations Limited* (trading as BNA) British Nursing Association Healthcare Services Limited* Grosvenor Nursing Agency Limited	UK healthcare services and personnel
Nestor Medical Duty Services Limited	UK doctors' duty services
Medic International Limited	UK locum doctors and other medical personnel and services
Cross Country Staffing*† (United States of America)	USA healthcare personnel

* The interest of Nestor Healthcare Group plc in these undertakings is held through intermediate holding companies.

† Nestor Healthcare Group plc has a 34% interest.

Except where stated, the principal undertakings are wholly-owned including 100% of voting rights, operate in the United Kingdom and are registered in England and Wales.

Note 15 Fixed asset investments – continued

Scott-Grant loan note
The remaining balance on the Scott-Grant loan note is repayable as follows:

	£000
Repayable 17th May 1998	**304**
Repayable 17th May 1999	**431**
Repayable 17th May 2000	**411**
	1,146

The loan note bears interest at 7% per annum.

In view of the interest charged and the repayment terms and security given, the loan has continued to be valued at face value at the date of sale.

Cross Country Staffing
The Company has, through Nestor-BNA Holdings Corp. and its subsidiaries, a 34% interest in the Cross Country Staffing, and accounts for its results as an associated undertaking.

The fair value of assets of the business at the beginning and end of the year were as follows:

	1997 $000	**1997 £000 at $1.64**	1996 $000	1996 £000 at $1.69
Tangible fixed assets	**507**	**309**	347	205
Debtors and prepayments	**25,975**	**15,829**	24,215	14,311
Creditors and accruals	**(9,115)**	**(5,555)**	(6,644)	(3,927)
Net operating assets	**17,367**	**10,583**	17,918	10,589
Borrowings	**(18,700)**	**(11,395)**	(30,280)	(17,896)
Net tangible liabilities of associate	**(1,333)**	**(812)**	(12,362)	(7,307)
Group share of total net liabilities (34%)	**(453)**	**(276)**	(4,203)	(2,484)

Note 15 Fixed asset investments – continued

Grosvenor Nursing Agency Limited

On 20th November 1997 the Company purchased the entire share capital of Grosvenor Nursing Agency Limited for £2,500,000. The consideration is in the form of loan notes, £1,000,000 of which will be paid on 31st October 1998 and £1,500,000 on 31st March 1999. These loan notes bear interest at 1% below NatWest base rate. They are guaranteed by Generale Bank.

There were no adjustments made to the carrying values of the assets and liabilities as at the date of acquisition. The assets and liabilities acquired and the goodwill arising are as follows:

	£000
Fixed assets	**41**
Current assets and liabilities	
Debtors and prepayments	**1,031**
Creditors and accruals	**(908)**
Bank overdraft	**(118)**
Net current assets	**5**
Net assets acquired	**46**
Purchase consideration	2,500
Costs of acquisition	**111**
Total cost	**2,611**
Goodwill arising (note 22)	**2,565**

Cash flows in respect of purchases of businesses

Grosvenor Nursing Agency	
Total cost	**2,611**
Issue of loan notes	**(2,500)**
Accrued expenses	**(20)**
Overdraft acquired	**118**
	209
Medic International	
Final payment to vendors	**400**

Note 16 Debtors

	Group		Company	
	1997 £000	1996 £000	**1997 £000**	1996 £000
Trade debtors	**21,015**	13,342	–	–
Amounts owed by Group companies	**–**	–	**1,841**	1,561
Dividends receivable from Group companies	**–**	–	**5,536**	4,636
Other debtors	**84**	27	**59**	19
Prepayments and accrued income	**1,788**	1,252	**41**	75
Corporation tax	–	–	**720**	1,120
	22,887	14,621	**8,197**	7,411

Note 17 Creditors – amounts falling due within one year

	Group 1997 £000	Group 1996 £000	Company 1997 £000	Company 1996 £000
Bank overdraft	**1,792**	298	**–**	–
Loan other than from banks	**1,000**	–	**1,000**	–
Trade creditors	**4,509**	3,426	**–**	–
Amounts owed to Group companies	**–**	–	**1,071**	1,058
Dividends proposed	**1,906**	1,675	**1,906**	1,675
Corporation tax	**2,355**	1,786	**512**	241
Other tax and social security	**1,822**	1,145	**82**	10
Other creditors	**1,849**	1,179	**57**	79
Accruals and deferred income	**1,575**	1,551	**759**	1,113
	16,808	11,060	**5,387**	4,176

Note 18 Creditors – amounts falling due after more than one year

	1997 £000	1996 £000	1997 £000	1996 £000
Loan other than from banks	**1,500**	–	**1,500**	–
Other creditors	**142**	114	**–**	–
	1,642	114	**1,500**	–

Note 19 Net borrowings (cash)

	Interest rates	1997 £000	1996 £000	1997 £000	1996 £000
Unsecured					
Bank overdraft	variable	**1,792**	298	**–**	–
Loan other than from banks	variable	**2,500**	–	**2,500**	–
Total borrowings		**4,292**	298	**2,500**	–
Cash at bank and in hand		**(290)**	(893)	**(8,011)**	(4,851)
Net borrowings (cash)		**4,002**	(595)	**(5,511)**	(4,851)

Net borrowings (cash) of the Group are summarised as follows:

	Repayable within 1 year £000	Repayable between 2 & 5 years £000	Total £000
Unsecured			
Bank overdraft	**1,792**	**–**	**1,792**
Loan other than from banks	**1,000**	**1,500**	**2,500**
Total borrowings	**2,792**	**1,500**	**4,292**
Cash at bank and in hand	**(290)**	**–**	**(290)**
At 31st December 1997	**2,502**	**1,500**	**4,002**
At 31st December 1996	(595)	–	(595)

Note 20 Provision for liabilities and charges

	1997 £000	1996 £000
Deferred taxation provision		
At 1st January 1997	**117**	83
Provided during the year	**25**	34
At 31st December 1997	**142**	117
Full potential liability	**142**	117

The deferred taxation provision arises from accelerated depreciation allowances.

Note 21 Share capital

	Authorised Number	Authorised £000	Allotted, issued and fully paid Number	Allotted, issued and fully paid £000
Ordinary shares of 10p each				
At 1st January 1997	**96,000,000**	**9,600**	**76,124,077**	**7,612**
Issued during the year following exercise of options			**1,061,370**	**106**
At 31st December 1997	**96,000,000**	**9,600**	**77,185,447**	**7,718**

Note 22 Share premium account and reserves

	Share premium account £000	Acquisition reserve £000	Foreign exchange reserve £000	Profit & loss account £000	Total £000
Group					
At 1st January 1997	**1,923**	**(6,082)**	**885**	**2,563**	**(711)**
Foreign exchange movements	–	–	**(84)**	–	**(84)**
Issue of shares following exercise of options	**625**	–	–	–	**625**
Goodwill written off on acquisition	–	**(2,565)**	–	–	**(2,565)**
Retained for the year	–	–	–	**4,157**	**4,157**
At 31st December 1997	**2,548**	**(8,647)**	**801**	**6,720**	**1,422**

Goodwill written off to date against reserves in respect of subsidiaries and associates still held by the Group	£000
As at 1st January 1997	**48,868**
Acquisition - Grosvenor Nursing Agency	**2,565**
At 31st December 1997	**51,433**

	Share premium account £000	Other reserves £000	Foreign exchange reserve £000	Profit & loss account £000	Total £000
Company					
At 1st January 1997	**1,923**	**23,596**	**2,154**	**10,399**	**38,072**
Profit for the year	–	–	–	**4,744**	**4,744**
Issue of shares following exercise of options	**625**	–	–	–	**625**
Dividends	–	–	–	**(2,981)**	**(2,981)**
At 31st December 1997	**2,548**	**23,596**	**2,154**	**12,162**	**40,460**

Notes to the Financial Statements continued

for the year ended 31st December 1997

Note 23 Cash flow statement

	1997 £000	1996 £000
Reconciliation of operating profit, including share of profit of associate, to net cash inflow from operations		
Operating profit	**9,213**	7,536
Depreciation charges	**980**	724
Net profit on sale of tangible fixed assets	**(8)**	(10)
Decrease in stocks	**–**	19
Increase in debtors	**(1,234)**	(2,442)
Increase in creditors	**2,062**	1,171
Profit of associate less dividends received	**(2,291)**	(772)
Net cash inflow from operations	**2,722**	6,226

	Loans £000	Cash less overdrafts £000	Total £000
Analysis of movements in loans and cash balances			
At 1st January 1996	(4,378)	(361)	(4,739)
Decrease in loans and net cash inflow	4,491	952	5,443
Foreign exchange movements	(113)	4	(109)
At 1st January 1997	**–**	**595**	**595**
Increase in loans and net cash inflow (outflow)	**(2,500)***	**(2,097)**	**(4,597)**
Foreign exchange movements	–	–	–
At 31st December 1997	**(2,500)**	**(1,502)**	**(4,002)**

*The increase in loans of £2,500,000 relates to the issue of loan notes by the Group as consideration for the acquisition of Grosvenor Nursing Agency (see note 15). The impact on cash flows of post-acquisition trading of this company is not material.

Note 24 Other financial commitments

The Group rents numerous premises operated under leases whose terms, conditions and expiry dates vary considerably. The aggregate annual rental costs of these premises amounted to £1,512,000 in 1997 (1996 – £1,531,000).

The net commitment in respect of operating leases in 1998 is as follows:

	Land & buildings occupied by Group £000	Land & buildings not occupied by Group £000	Total £000
For leases expiring			
within one year	**55**	**–**	**55**
between two and five years	**398**	**–**	**398**
beyond five years	**299**	**425**	**724**
	752	**425**	**1,177**

Note 25 Pension costs

The Company operates a funded pension scheme providing benefits based on final pensionable salary. The scheme is administered by Trustees separately from the affairs of the Group and is contracted out of the additional component of the State Pension Scheme.

Watson Wyatt Partners carried out an actuarial valuation of the scheme as at 30th April 1995. On the actuarial basis used, as at that date the assessed value of the assets was 91% of the capitalised value of the accrued benefits, allowing for expected future increases in pensionable earnings to Normal Pension Age, treating the scheme as an on-going entity.

The market value of the investments held in the scheme as at the valuation date was £4,957,000. In addition there were pensions in payment secured by the purchase of annuities.

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of investment return on future net cash flow, the rate at which dividends on UK equities grow and the rate of increase in pensionable earnings. These rates were set relative to an assumed long-term rate of price inflation of 4% per annum.

The assumed future rate of investment return, used to discount projected income and outgoing benefits, was a real rate of 4.5% per annum relative to price inflation. For the purposes of the valuation, the investment assets were assumed to be invested wholly in UK equities and dividends were assumed, over the long-term future, to grow in line with price inflation. Pensionable earnings were assumed to increase at a rate of 3% per annum ahead of price inflation.

The employer's contribution rate is calculated using the projected unit method and the shortfall of assets as at 30th April 1995 is amortised as a constant percentage of members' pensionable earnings over the average expected working lifetime of the active members.

The pension charge for the year was £487,000 (1996 – £392,000).

An actuarial valuation of the Company's pension scheme is being carried out by Watson Wyatt Partners as at 5th April 1997. The valuation takes into account the financial effect of the July 1997 Budget which removed the ability of pension schemes to reclaim tax credits on UK equity dividends. On the basis of the preliminary results of this valuation, it has been decided not to make any change to the pension charge for 1997 referred to above.

Note 26 Share option schemes

The following table sets out options in issue under the various Company schemes at the beginning and end of the year and movements during the year. Share options in issue expire after a certain time and exercise dates vary. Exercise rights are subject to the rules of the schemes and share options in issue are not normally exercisable until the expiry of a period of at least three years. In addition achievement of performance levels is normally required in all schemes except the SAYE scheme.

	Date of issue	Option price (pence)	In issue 1st Jan 1997	Exercised in the year	Lapsed in the year	In issue 31st Dec 1997
Employee Share Option Scheme						
	December 1987	72.26	262,232	(133,028)	(129,204)	–
	April 1989	144.52	222,028	(31,360)	(79,233)	111,435
	August 1989	118.51	80,797	(73,691)	(7,106)	–
	October 1990	86.00	321,998	(194,110)	(89,008)	38,880
	October 1991	67.00	107,750	(92,750)	(10,000)	5,000
	May 1993	53.00	585,000	(255,000)	(330,000)	–
	October 1994	45.00	177,800	(177,800)	–	–
			1,757,605	(957,739)	(644,551)	155,315
Company Share Option Plan 1996						
	November 1996	115.00	705,000	–	(33,500)	671,500
			705,000	–	(33,500)	671,500
Employee Share Option Scheme 1996						
	November 1996	115.00	908,700	–	(192,700)	716,000
			908,700	–	(192,700)	716,000
Savings Related Share Option Scheme						
	October 1991	56.00	96,423	(96,423)	–	–
	October 1995	60.00	365,125	(7,208)	(83,067)	274,850
	December 1997	131.00	323,060	–	–	323,060
			784,608	(103,631)	(83,067)	597,910
Total			**4,155,913**	**(1,061,370)**	**(953,818)**	**2,140,725**

Five Year Summary

	1993 £000	1994 £000	1995 £000	1996 £000	**1997 £000**
Group profit and loss account					
Turnover					
Continuing operations – ongoing	88,777	99,524	114,697	124,574	**142,753**
Continuing operations – acquisition	–	–	–	–	**1,589**
Discontinued operations	21,769	18,211	14,419	5,442	–
	110,546	117,735	129,116	130,016	**144,342**
Operating profit and share of profit of associate					
Continuing operations – ongoing	4,229	3,580	5,512	7,210	**9,151**
Continuing operations – acquisition	–	–	–	–	**62**
Discontinued operations	1,911	1,545	1,160	326	–
	6,140	5,125	6,672	7,536	**9,213**
Exceptional items	–	(4,209)	–	(9,623)	–
Operating profit after exceptional items	6,140	916	6,672	(2,087)	**9,213**
Net interest	(1,625)	(997)	(360)	64	**498**
Profit (loss) before taxation	4,515	(81)	6,312	(2,023)	**9,711**
Taxation	(1,174)	(1,459)	(1,974)	(2,071)	**(2,573)**
Profit (loss) after taxation	3,341	(1,540)	4,338	(4,094)	**7,138**
Earnings (loss) per share – FRS 3 basis	4.46p	(2.06p)	5.79p	(5.42p)	**9.33p**
Earnings per share – before exceptional items	4.46p	3.57p	5.79p	7.12p	**9.33p**
Dividends per share	3.15p	3.15p	3.15p	3.47p	**3.87p**
Group balance sheet					
Tangible fixed assets	18,388	2,007	1,916	2,712	**3,685**
Investments	–	856	969	(34)	**870**
Total fixed assets	18,388	2,863	2,885	2,678	**4,555**
Current assets	16,088	15,094	16,280	14,621	**22,887**
Liabilities and provisions	(10,495)	(8,183)	(9,776)	(10,993)	**(14,300)**
Net operating assets	23,981	9,774	9,389	6,306	**13,142**
Net cash (borrowings)	(18,325)	(7,218)	(4,739)	595	**(4,002)**
Net assets	5,656	2,556	4,650	6,901	**9,140**
Share capital	7,484	7,484	7,507	7,612	**7,718**
Share premium account	1,205	1,205	1,306	1,923	**2,548**
Acquisition reserve	(14,719)	(14,106)	(14,106)	(6,082)	**(8,647)**
Other reserves	11,686	7,973	9,943	3,448	**7,521**
Equity shareholders' funds	5,656	2,556	4,650	6,901	**9,140**
Group cash flow statement					
Net cash inflow from operating activities	5,171	4,605	7,380	6,226	**2,722**
Interest (paid) received	(1,467)	(1,237)	(516)	(136)	**124**
Tax paid	(882)	(1,264)	(1,409)	(1,818)	**(2,087)**
Capital expenditure	(2,644)	(1,096)	(723)	(1,473)	**(1,905)**
Acquisitions and disposals	(2,784)	12,119	–	4,389	**1,067**
Equity dividends paid	(2,357)	(2,357)	(2,357)	(2,467)	**(2,749)**
Issue of shares	–	–	124	722	**731**
Increase (decrease) in loans	1,148	(10,497)	(2,179)	(4,491)	–
Increase (decrease) in cash	(3,815)	273	320	952	**(2,097)**

Shareholder Information

Financial calendar

Announcement of 1998 results

For the half-year	September 1998
For the year	March 1999
Annual Report and Accounts circulated	April 1999
Annual General Meeting	May 1999

Dividends	
Proposed final dividend 1997	
Announcement	23rd March 1998
Ex-dividend	30th March 1998
Record date	3rd April 1998
Payment date	29th May 1998
Interim dividend 1998 (provisional)	
Announcement	September 1998
Payment	October 1998

Analysis of shareholdings

At the date of this report the Company has 916 shareholders who hold over 77 million ordinary shares between them, analysed as follows:

Size of holding	Number of shareholders	% of shareholders	Number shares	% of shares
1–5,000	621	67.8	691,341	0.9
5,001–50,000	177	19.3	2,848,705	3.7
50,001–100,000	21	2.3	1,633,371	2.1
100,001 and over	97	10.6	72,022,015	93.3
	916	100.0	77,195,432	100.0

Type of shareholder				
Individuals	616	67.2	2,644,623	3.4
Nominee companies*	261	28.5	70,492,340	91.3
Other corporate and public bodies	33	3.6	3,303,678	4.3
Trust companies	6	0.7	754,791	1.0
	916	100.0	77,195,432	100.0

*This category includes the beneficiaries of pension funds, unit trusts, life assurance companies and investment trusts.

Share Registrar

With effect from 13th March 1998, the Company's registrar is Computershare Services PLC, formerly the registration business of The Royal Bank of Scotland.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN, that the twelfth Annual General Meeting of the Company will be held at The Millennium Britannia Hotel, Grosvenor Square, London W1A 3AN on 21st May 1998 at 12 noon for the following purposes:

Ordinary business

1. To receive and consider the financial statements, together with the reports of the directors and auditors, for the year ended 31st December 1997.
2. To declare a final dividend.
3. To re-elect R M Nicholls as a director.
4. To re-elect D O Lyon as a director.
5. To re-elect D G Heywood as a director.
6. To re-appoint Coopers & Lybrand as the auditors, to act as such until the conclusion of the next Annual General Meeting and to authorise the directors to fix the auditors' remuneration.

Special business

7. To consider and, if thought fit, to pass the following resolution which will be proposed as a Special Resolution:

   That, the directors be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985, to allot equity securities (within the meaning of Section 94 of that Act) for cash pursuant to the authority conferred by Ordinary Resolution numbered 6 at the Annual General Meeting of the Company held on the 17th May 1995, as if subsection (1) of Section 89 of that Act did not apply to any such allotment, provided that this power shall be limited to:

   (i) the allotment of equity securities in connection with any rights issue in favour of ordinary shareholders on the register of members at such record date or dates as the directors may determine for the purpose of the issue where the equity securities respectively attributable to the interests of all such holders of ordinary shares are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them at any such record date or dates so determined, provided that the directors may make such arrangements or exclusions as they consider necessary or expedient in respect of fractional entitlements or legal or practical problems arising in any overseas territory or the requirements of any regulatory body or stock exchange;

   (ii) the allotment of equity securities pursuant to the terms of any share scheme for employees approved by shareholders in general meeting; and

   (iii) the allotment (otherwise than pursuant to sub-paragraph (i) or (ii) above) of equity securities up to an aggregate nominal amount of £386,000;

   and shall expire on the date of the next Annual General Meeting of the Company after the date of passing of this resolution, save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement notwithstanding that this power has expired.

8. To consider and, if thought fit, to pass the following resolution which will be proposed as a Special Resolution;

   That, pursuant to Article 44 of the Company's Articles of Association, the Company be and is hereby granted renewal of its general and unconditional Authority to make market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of ordinary shares of 10p each in the capital of the Company provided that:

   (i) the maximum number of ordinary shares hereby authorised to be purchased is 7,700,000 representing approximately 10 per cent of the issued ordinary share capital at 23rd March 1998;

   (ii) the minimum price which may be paid for each ordinary share is 10p per share which amount shall be exclusive of expenses;

   (iii) the maximum price which may be paid for each ordinary share is, in respect of an ordinary share contracted to be purchased on any day, an amount (exclusive of expenses) equal to 105 per cent of the average of the mid-market quotations for an ordinary share of the Company as derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which the ordinary share is purchased;

(iv) the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company after the date of passing this resolution, unless such authority is renewed prior to such time; and

(v) the Company may conclude a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of ordinary shares in pursuance of any such contract as if the authority hereby conferred had not expired.

By order of the Board

J Wood *Secretary*

Registered office:
The Colonnades
Beaconsfield Close
Hatfield
Hertfordshire AL10 8YD

23rd March 1998

1. A form of proxy is enclosed with this notice. A member of the Company entitled to attend and vote at the above Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company. To be valid, proxies must be lodged with the Registrar of the Company no later than 48 hours before the time appointed for the Meeting.
2. Copies of service agreements between the Company and the directors will be available for inspection at the registered office of the Company during normal business hours on each business day from the date of this notice until the date of the Meeting and at the place of the Meeting from fifteen minutes before and until the end of the Meeting.